

SAN DIEGO UNIFIED SCHOOL DISTRICT

Revised Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 2001, through June 30, 2003



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 17, 2007

Carl A. Cohn, Ed.D.
Superintendent of Public Instruction
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2682

Dear Dr. Cohn:

The State Controller's Office audited the costs claimed by the San Diego Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2001, through June 30, 2003. This revised final report supersedes the previously issued final report dated July 22, 2005. This final report revises Finding 2 and eliminates Finding 3 from the previously issued report. As a result, allowable costs increased by \$70,512.

The district claimed \$724,459 for the mandated program. Our audit disclosed that \$483,301 is allowable and \$241,158 is unallowable. The unallowable costs occurred because the district claimed unallowable salary and benefit costs. The State paid the district \$412,789. The State will pay allowable costs claimed that exceed the amount paid, totaling \$70,512, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/ams

cc: William Kowba
Chief Financial Officer
San Diego Unified School District
Arthur M. Palkowitz, Manager
Office of Resource Development
Financial Division
San Diego Unified School District
Jennifer Ritchie
Legislative Financial Accountant
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San Diego Unified School District
Randolph E. Ward, Ed. D., County Superintendent of Schools
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Diego Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2001, through June 30, 2003. The last day of fieldwork was March 29, 2005.

The district claimed \$724,459 for the mandated program. Our audit disclosed that \$483,301 is allowable and \$241,158 is unallowable. The unallowable costs occurred because the district claimed unallowable salary and benefit costs. The State paid the district \$412,789. The State will pay allowable costs claimed that exceed the amount paid, totaling \$70,512, contingent upon available appropriations

Background

Chapter 161, Statutes of 1993, added *Education Code* Section 35160.5(c), which was subsequently renumbered as Section 35160.5(b) by Chapter 204, Statutes of 1996. The law requires the governing board of each school district to prepare and adopt, on or before July 1, 1994, rules to establish and implement an open enrollment policy for district residents. The policy must ensure that:

1. The parent or guardian of each school-aged child who is a resident in the district may select the schools the child shall attend;
2. Once an intradistrict transfer is selected, the district will ascertain the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
3. Intradistrict attendance in excess of school-site attendance area capacity will be determined by a random, unbiased process that prohibits pupil evaluation for enrollment based upon the pupil's academic or athletic performance; and
4. No pupil who currently resides in the attendance area of a school may be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, amended *Education Code* Section 35160.5(c) to specify that the intradistrict attendance program does not apply to any school district that has only one school or schools that do not serve any of the same grade levels. The amendment also requires school districts to determine school capacities within the district's jurisdiction.

On January 19, 1995, the Commission on State Mandates (COSM) determined that Chapters 161 and 915, Statutes of 1993, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on May 24, 1995. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Intradistrict Attendance Program for the period of July 1, 2001, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures, as recommended by *Government Auditing Standards*. However, the district did not submit a representation letter.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Revised Summary of Program Costs (Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, the San Diego Unified School District claimed \$724,459 for Intradistrict Attendance Program costs. Our audit disclosed that \$483,301 is allowable and \$241,158 is unallowable.

For fiscal year (FY) 2001-02, the State paid the district \$220,885. Our audit disclosed that \$254,048 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$33,163, contingent upon available appropriations.

For FY 2002-03, the State paid the district \$191,904. Our audit disclosed that \$229,253 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$37,349, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on May 6, 2005. Arthur M. Palkowitz, Manager, Office of Resource Development, responded by letter dated May 31, 2005 (Attachment), disagreeing with Finding 2.

This revised final audit report revises Finding 2 (unreported offsetting reimbursements) and eliminates Finding 3 (unallowable indirect costs) from our final audit report issued July 22, 2005. As a result, allowable costs increased by \$70,512. We advised Mr. Palkowitz of the revised final audit report on December 16, 2006.

Restricted Use

This report is solely for the information and use of the San Diego Unified School District, the San Diego County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Revised Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2003

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 363,600	\$ 246,314	\$ (117,286)	Finding 1
Indirect costs	<u>11,417</u>	<u>7,734</u>	<u>(3,683)</u>	Findings 1, 2
Total program costs	<u>\$ 375,017</u>	254,048	<u>\$ (120,969)</u>	
Less amount paid by the State		<u>(220,885)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 33,163</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 341,586	\$ 224,099	\$ (117,487)	Finding 1
Indirect costs	<u>7,856</u>	<u>5,154</u>	<u>(2,702)</u>	Findings 1, 2
Total program costs	<u>\$ 349,442</u>	229,253	<u>\$ (120,189)</u>	
Less amount paid by the State		<u>(191,904)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,349</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Salaries and benefits	\$ 705,186	\$ 470,413	\$ (234,773)	Finding 1
Indirect costs	<u>19,273</u>	<u>12,888</u>	<u>(6,385)</u>	Findings 1, 2
Total program costs	<u>\$ 724,459</u>	483,301	<u>\$ (241,158)</u>	
Less amount paid by the State		<u>(412,789)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 70,512</u>		

¹ See the Revised Findings and Recommendations section.

Revised Findings and Recommendations

FINDING 1— Unallowable salary, benefit, and related indirect costs

The district claimed unallowable salary and benefit costs totaling \$234,773 for the audit period. The related indirect costs total \$6,385.

The district claimed costs for various administrative employees who performed the Random Selection Process and Schoolsite Capacity mandated activities. However, the district's records showed that restricted fund sources partially funded the salary and benefit costs for these employees.

For each employee, we used the district's payroll, benefit cost, and funding source records to calculate the portion of total annual salary and benefit costs funded by unrestricted fund sources. Unallowable costs resulted from those employees whose claimed costs exceeded costs funded by unrestricted fund sources.

The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2001-02	2002-03	
Salary and benefit costs	\$ (117,286)	\$ (117,487)	\$ (234,773)
Related indirect costs	(3,683)	(2,702)	(6,385)
Audit adjustment	<u>\$ (120,969)</u>	<u>\$ (120,189)</u>	<u>\$ (241,158)</u>

Parameters and Guidelines states that reimbursement for this mandate received from any source—e.g., service fees collected, federal funds, other state funds, etc.—shall be identified and deducted from claimed costs.

Recommendation

We recommend that the district deduct from costs claimed any reimbursement received from other sources.

District's Response

The district did not respond to this finding.

SCO's Comment

The finding and recommendation are unchanged.

**FINDING 2—
Indirect cost pools
overstated**

For the audit period, the district's indirect cost pools included direct mandate-related costs claimed. Therefore, the indirect cost pools and the resulting indirect cost rates were overstated. As a result, the district recovered duplicate costs when it applied its indirect cost rates to federal and state-funded programs.

The district's fiscal year (FY) 2001-02 and FY 2002-03 indirect cost pools included mandate-related direct salary and benefit costs totaling \$82,619 and \$91,991, respectively. We allowed the direct costs claimed because the costs are mandate-related and properly supported. Although the indirect cost rates claimed were overstated, we concluded that the mandate-related indirect costs claimed were not materially affected. Therefore, we allowed the related indirect costs claimed. However, we did not calculate the duplicate costs that the district recovered by applying the overstated indirect cost rates to other federal and state-funded programs.

Office of Management and Budget (OMB) Circular A-87, Attachment A, states that direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, but which are not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

Recommendation

We recommend that the district notify the California Department of Education (CDE) that the district overstated its indirect cost rates by including mandate-related direct costs in its indirect cost pools. We recommend that the district work with the CDE to adjust subsequent years' indirect cost rates to account for the rates that were overstated during the audit period.

We also recommend that the district work with the CDE to identify the appropriate codes from the CDE's standardized account code structure that the district should use when costs are charged directly to federal and state-funded programs.

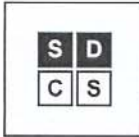
District's Response

The district responded to our original audit finding, which reflected an audit adjustment for offsetting reimbursements resulting from direct mandate-related costs included in the indirect cost pools. The district disagreed with the previous audit finding, stating that the audit adjustment was not consistent with *Parameters and Guidelines*.

SCO's Comment

The district's response did not disprove that the indirect cost pools included direct mandate-related costs. We revised the audit finding to eliminate the monetary audit adjustment. However, our audit finding continues to report that the district's indirect cost pools inappropriately include mandate-related direct costs. We recommend that the district work with the CDE to resolve this issue.

**Attachment—
District's Response to
Draft Audit Report**



SAN DIEGO CITY SCHOOLS

EUGENE BRUCKER EDUCATION CENTER
4100 Normal Street, San Diego, CA 92103-8363

(619) 725-7785
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FINANCIAL OPERATIONS DIVISION
Office of Resource Development

May 31, 2005

Jim L. Spano
Compliance Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

RE: INTRADISTRICT ATTENDANCE, CHAPTER 161/93 & 915/93

Dear Mr. Spano:

This letter is in response to the May 2005 Draft Audit Report. The State Controller's Office performed an audit of San Diego Unified School District's (district) Intradistrict Attendance claims for fiscal years 2001/2002 and 2002/2003. The district objects to *finding 2* regarding unreported offsetting reimbursements.

The State Controller's Office (SCO) states that the district did not report \$65,802 in offsetting reimbursements that occurred when direct costs claimed on the mandate were used in the calculation of the districts indirect cost rate, and therefore were assumed to have been partially recovered from federal and other state programs.

Government Code Section 17564(a) states that "indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines and claiming instructions." The parameters and guidelines and the claiming instructions allow the use of the indirect cost rate approved by the California Department of Education, which was based on the district's J-380. Therefore the district asserts that the SCO's adjustment is not consistent with parameters and guidelines the claiming instructions, and that these adjustments are inappropriate.

Please correct the draft audit report to find that the costs claimed by the district relating to *finding 2* are approved as claimed. If you need any further information, or would like to

"The mission of the San Diego City Schools is to improve student achievement by supporting teaching and learning in the classroom."

Letter to Jim L. Spano
Page 2
May 31, 2005

meet to resolve this matter, I can be reached at (619) 725-7785.

Sincerely,

A handwritten signature in blue ink, appearing to be 'AP', with a large loop at the end.

Art M. Palkowitz
Manager, Office of Resource Development

AMP:jlt

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>